

**ANACORTES HOUSING AUTHORITY**  
**Skagit County, Washington**  
**April 1, 1995 Through March 31, 1996**

---

**Schedule Of Federal Findings**

---

1. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

Our review of the Anacortes Housing Authority's fixed asset system revealed the following weaknesses:

- a. The housing authority did not have written policies and procedures to account for the acquisition, capitalization, and disposition of assets.
- b. The housing authority did not adequately ensure all assets were included in the fixed asset records. However, we noted no instances which would materially affect the financial statement balances.
- c. The housing authority removed assets from the fixed asset records without determining if they were properly disposed of. Assets included two refrigerators, one pager, and one pager charger.
- d. The housing authority did not have accurate fixed asset records available with which to reconcile annual physical inventory counts.
- e. The housing authority's system did not ensure assets are identified as housing authority property, nor do their records identify the location, use, and condition of the property or the source of funds used to acquire assets.

For any fixed assets purchased by the housing authority using federal funds, the "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section .32(d), Management Requirements, states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property . . . .

RCW 43.09.200, Local government accounting ) Uniformed system of accounting, states in part:

The state auditor shall formulate, prescribe and install a system of accounting and reporting for all local governments . . . The accounts shall show the receipt, use, and disposition, of all public property . . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local government, regardless of size . . . .

While the housing authority appears to have made some effort to improve its fixed asset recording system, it still has not allocated sufficient resources to implement the necessary internal controls and accounting procedures to properly account for fixed assets.

The housing authority's lack of adequate accounting procedures and internal controls over fixed assets results in the possibility of errors and irregularities occurring and not being detected in a timely manner, if at all. In addition:

- a. The lack of an adequate system to identify housing authority property increases the risk of loss or theft occurring without the knowledge of the housing authority's management.
- b. The housing authority is unable to ensure assets are recorded properly and are accurately reported in its financial statements.
- c. The housing authority cannot substantiate the location of assets removed from the fixed asset records (i.e., disposed, recycled, sold, stolen, etc.).
- d. The housing authority is unable to identify fixed assets acquired with federal funds and the final disposition of such property, thereby failing to comply with requirements of the "Common Rule". These deficiencies can impair the housing authority's eligibility for future assistance.

We recommend housing authority officials strengthen the fixed asset internal control system to ensure housing authority property is adequately safeguarded and accounted for. We further recommend housing authority officials develop a fixed asset recording system capable of demonstrating compliance with federal grantor requirements.

2. The Housing Authority Should Administer Contracts In Accordance With Federal And State Requirements And The Contract Agreement

The Anacortes Housing Authority does not have an adequate system of administrative controls to properly ensure the facilitation of the Public and Indian Housing Comprehensive Improvement Assistance Program (CIAP). During our review of this grant, we noted the following:

- a. Four instances were noted in which the housing authority failed to require original documentation from three separate vendors. The inadequate documentation supported expenditures totaling \$6,598, subsequently paid for with CIAP funds. During the audit, the housing authority made attempts to acquire documentation to support these expenditures, however, original documentation was not received.
- b. The housing authority did not require the vinyl siding contractor to prepare a construction progress schedule detailing specific dates and amount of work to be completed to correspond with contractor payments.
- c. The housing authority approved the vinyl siding contractor's payment requests for materials and work even though items were identified by the housing authority's modernization coordinator as failing to meet contract specifications and the housing authority's standards of quality.

CIAP grant provisions specifically require grant reimbursements be properly supported by the underlying expenditure records. In addition, RCW 43.09.200 states:

The state auditor shall formulate, prescribe and install a system of accounting and reporting for all local governments . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever . . . The accounts shall show . . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

The Office of Management and Budget's "Common Rule," Subpart C, states in part:

- (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

*The Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book 7485.1* Revision 4, Section 9-18, states in part:

- (a) The PHA shall require the contractor to prepare a construction progress schedule, for each project immediately after PHA issuance of the notice to proceed . . .
- (b) The PHA or its architect shall review the contractor's construction progress schedule to determine that the scheduled dates and amount of work to be completed are reasonable and consistent with the contract  
. . . .

*Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book*

7485.1 Revision 4, Section 9-20 states in part:

The PHA shall review each contractor request and shall approve the payment . . . If the contractor requests payment for items which have not been acceptably completed, the PHA shall delete those items and adjust the payment accordingly.

*Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book*  
7485.1 Revision 4, Section 10-15 states in part:

PHA shall have the final responsibility for ensuring the work quality and progress.

The problems noted appear to be the result of staff turnover and a lack of knowledge regarding grant requirements.

By improperly administering federally funded contracts, the housing authority could jeopardize future federal funding and be held accountable for allowing substandard housing to be occupied. In addition:

- a. When payments are allowed to be made on copies of original documents the housing authority increases the risk documents may be changed during the duplication process resulting in errors and/or irregularities which may not be discovered in a timely manner, if at all. Also the housing authority cannot ensure the validity and appropriateness of the expenditures which could result in the housing authority being required to pay back part or all of the grant funds or effect the receipt of grant funding in the future.
- b. Prepayment of contracted costs could occur when a construction progress schedule, detailing specific dates and amount of work to be completed, is not maintained.
- c. Additional costs were incurred to utilize the services of an independent party to inspect the project, and to pay the original contractor to correct deficiencies found in the contracted work.

We recommend the following:

- a. The housing authority require the submission of original, detailed documentation to support all expenditures incurred.
- b. The housing authority require contractors to prepare, for housing authority approval, a construction progress schedule detailing specific dates and amount of work to be completed to correspond with contractor payments.
- c. The housing authority withhold payments to contractors until the housing authority is satisfied the work has complied with contract specifications and the housing authority's standard of quality.